V. THE IMPUTATION OF POLE ATTACHMENT COSTS SHOULD BE HANDLED VIA FULLY DISTRIBUTED COST PROCEDURES

Recognizing that price cap regulation eliminates virtually all ties between prices and cost allocation and that competitive downward pressure on prices altogether eliminates any incentive to cross-subsidize, the Commission should implement the imputation of pole attachment costs required by Section 224(g) of the 1996 Act in a manner which is both easy to administer and avoids detailed procedures to determine the amount of "stand-alone" pole attachment costs.

Consistent with Section 224, the Commission adopted a formula for calculating pole attachment rates based on fully allocated costs. Since Part 64 also uses a fully allocated method, the pole attachment costs that would be allocated in a manner that follows the cost allocation principles of Part 64 should be sufficient to satisfy the requirements of Section 224(g). The amounts of pole-related costs allocated pursuant to a Part 64 fully distributed costing method would reasonably approximate the rates that would be charged pursuant to Section 224. The three methods suggested by the Commission would require an unnecessarily detailed analysis of the costs that would have been incurred if the LEC's cable operation were using separate attachments on each pole. A Part 64 process would calculate an allocation of fully distributed costs in connection with a LEC's provision of video service in each of the USOA accounts used in calculating the pole attachment rate pursuant to the Commission formula. Thus, the Commission should use the Part 64 cost allocation process to perform the imputation of costs required by Section 224(g).

VI. ARBITRARY CHANGES IN PART 64 ALLOCATION METHODS SHOULD NOT TRIGGER REDUCTIONS IN PRICE CAP INDICES

The exogenous cost rule in Section 61.45(d)(1)(v) was intended to re-adjust regulated prices in the event that the historical allocation of costs to existing nonregulated activities were altered significantly to shift a larger share of total costs to nonregulated activities. The exogenous cost rules were never intended to make significant changes in regulated price cap indexes when new nonregulated services are introduced. When a carrier introduces a new nonregulated service, no automatic exogenous changes were ever contemplated, nor would they be appropriate.

Despite the NPRM's apparent assumption that Section 61.45(d)(1)(v) requires any reallocations of investment to be treated as exogenous, the Commission should not use any new Part 64 allocation mandates to trigger a decrease in any price cap indices. Such an impact on price cap indices is unnecessary to achieve efficient prices for LEC services and would distort investment incentives sufficiently to limit any increases in consumer benefits. Although prices for video services are not determined by Part 64 cost allocations, the Commission's adoption of cost allocation mandates, such as the fixed allocation factor, for purposes of reducing the price cap indices, would indirectly distort the LECs' business decisions concerning entry into the video market.

Further, a regulatory decision to reallocate common costs between regulated and unregulated services does not necessarily indicate a meaningful change in the economic costs of producing any particular service or group of services. Such a regulatory action could reflect policy decisions aimed at "protecting" a particular group of consumers or competitors rather than actual cost reductions resulting from technological advances or other significant changes in LEC production processes. Since the introduction of new services typically does not generate material reductions in the costs of producing existing LEC services, LEC entry into video service markets will not substantially reduce the cost of providing telecommunications services. LEC entry into video service markets would not render prevailing LEC telecommunications service prices unreasonable and does not warrant Commission intervention (under the guise of cost reallocation) to lower price cap indices. Basing exogenous cost reduction on the benefits arising from LEC economics of scope, the Commission would be forcing regulated telephone service consumers to receive all of these benefits despite the absence of any real reduction in the economic costs of providing these services. Such a regulatory policy decision might deny video consumers the benefits of lower prices by dampening the incentives for LEC competitive entry. Therefore, adopting an arbitrary method by which costs are allocated among services to yield a reduction in price cap indices is not in the public interest. Only if the economic costs of providing telecommunications services decline solely as a result of LEC entry into video service market should regulated telephone service prices be affected; such price changes should not result from arbitrarily changing the accounting methods used to shift costs around on a ledger.

The Commission asks whether Part 64 is even needed for price cap carriers that are not subject to sharing obligations. The answer is no. Aside from the policy decision whether to manipulate Part 64 reallocations to reduce telephone price indices, prices are not determined by regulated accounting costs, especially if a LEC is not subject to sharing obligations. As a result of price cap regulation and competition, such LECs lack the ability or incentive to cross-subsidize, with or without Part 64. Therefore, the Part 64 process is not necessary for any price cap carrier which is not subject to sharing. To the extent cost allocation rules are retained, current Part 64 rules are more than sufficient.

VII. CONCLUSION

To the extent Part 64 is retained for non-price cap LECs, the Commission should not replace the cost-causative foundations of the Joint Cost Order with fixed factors, cost ceilings or other rigidly uniform cost allocation methods. If the Commission makes any changes to Part 64, the changes should allow more, not less, flexibility in applying the cost-causative hierarchy of cost allocation principles of the Joint Cost Order. To avoid frustrating the pro-competitive, deregulatory intent of the 1996 Act and deterring LEC entry into new markets, the Commission must continue to allow Part 64 principles to be adaptable to the variety of operations, systems, markets, regional differences in costs and other unique circumstances of the individual LECs.

Respectfully submitted,

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May 31, 1996

EXHIBIT "A"

64.901(b)(3)

(iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated to nonregulated activities based upon a general allocator computed by using the ratio of (a) all expenses directly assigned or attributed to nonregulated activities over (b) all expenses so assigned or attributed to regulated and nonregulated activities. Any category of expense included in the numerator of such ratio shall be included in the denominator of such ratio, and carriers shall describe the included and excluded costs in the cost apportionment tables in their cost allocation manuals.

CERTIFICATE OF SERVICE

I, Kelly Brickey, hereby certify that the foregoing "Comments of Southwestern Bell Telephone Company", have been served May 31, 1996 to the Parties of Record.

Kelly Brickey

Kelly Brickey

May 31, 1996

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